

# CERBT Strategy 1

California Employers' Retiree Benefit Trust (CERBT)

October 31, 2011



## Objective

The objective of the CERBT Strategy 1 portfolio is to seek favorable returns that reflect the broad investment performance of the financial markets through capital appreciation and through investment income. There is no guarantee that the portfolio will achieve its investment objectives.

## Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. The specific percentages of portfolio assets allocated to each asset class are shown under "Composition". Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with other asset allocation strategies, this portfolio consists of a higher percentage of equities to bonds and other assets. Historically, equities have displayed greater price volatility and therefore this portfolio may experience greater fluctuation of value. Employers that seek higher investment returns, and are able to accept greater risk and tolerate more fluctuation in returns, may wish to consider this portfolio.

## Information Provided in Lieu of Prospectus

The CERBT Strategy 1 portfolio consists of assets managed internally by CalPERS. Because it is not a mutual fund, a prospectus is not available. This summary is designed to provide descriptive information.

## Assets Under Management

As of October 31, 2011, the aggregate total of assets under management for all CERBT Strategies was **\$1,831,730,854**.

## Composition

### Asset Class Allocations and Benchmarks

The CERBT Strategy 1 portfolio may consist of the following asset class target allocations and corresponding benchmarks:

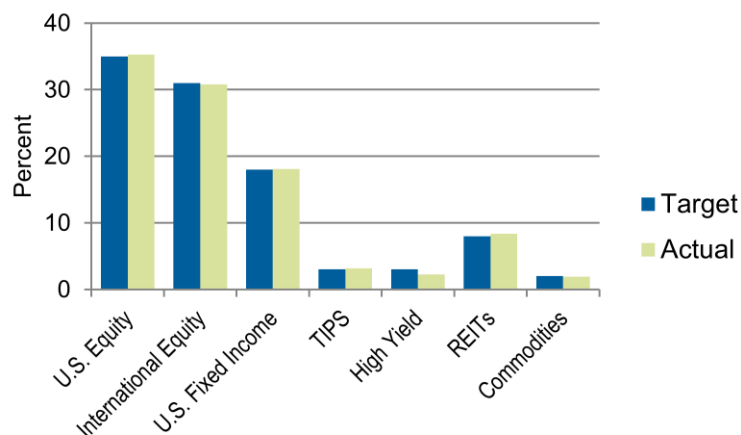
Asset Class	Benchmark
U.S. Equity	CalPERS S&P 500 Ex-Tobacco
International Equity	CalPERS FTSE Developed World Ex-US, Ex-Tobacco
U.S. Fixed Income	Barclays Capital Long Liability Index
Treasury Inflation-Protected Securities (TIPS)	Barclays Capital US TIPS Index
High Yield Fixed Income	CalPERS High Yield
Real Estate Investment Trusts (REITs)	FTSE EPRA/NAREIT Global Developed
Commodities	GSCI Total Return Index

### Portfolio Benchmark

The CERBT Strategy 1 benchmark is a composite of underlying asset class market indexes, each assigned the target weight for the asset class it represents.

### Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of October 31, 2011. CalPERS may overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations. There may be significant differences in the actual portfolio weights versus target weights due to ongoing transition activities which are expected to be completed in early 2012.



## CERBT Strategy 1 Performance as of October 31, 2011

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* (June 1, 2007)
Returns Before Expenses <sup>1</sup> (%)	8.52	-3.44	-4.03	4.46	12.60		0.21
CERBT Strategy 1 Benchmark	8.62	-3.29	-3.78	4.48	12.92		-0.40

\*Returns for periods greater than one year are annualized.

<sup>1</sup>See the "Expenses" section of this document.

Performance data shown represents past performance and is no guarantee of future results. The investment return and principal value of the portfolio will fluctuate so that an employers' account balance in the portfolio may be worth more or less than the amount invested. Current performance may be lower or higher than the performance data shown above.

# CERBT Strategy 1



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## General Information

### What Employers Own

Each employer owns a percentage of the CERBT Strategy 1 portfolio, which invests in pooled asset classes managed by CalPERS. Employers do not have direct ownership of the securities in the portfolio.

### Information Accessibility

Since the portfolio is not a mutual fund, information is not available from a newspaper source. Instead, CalPERS provides a quarterly statement of the employer's account. For current performance information, including performance to the most recent month-end, investment policy, and detailed asset allocation, please visit our website at: [www.calpers.ca.gov](http://www.calpers.ca.gov).

### Price

The value of the portfolio changes daily, based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value changes with market conditions.

### Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the fee, the greater the reduction of investment return. Currently, CERBT expenses are accrued at an annual rate of 0.12% and charged daily to employer accounts. CERBT's actual expenses may differ from the amount currently being accrued due to factors such as changes in average fund assets or actual expenses. The expense accrual rate may change without notice in order to reflect changes in average portfolio assets or in expense amounts. The CalPERS Board annually reviews the operating expenses and changes may be made as appropriate. Even if the portfolio loses money during a period, the fee is still charged.

### Portfolio Manager Information

The portfolio is managed by CalPERS Investment Office staff as directed by the CalPERS Investment Committee and Board of Administration.

## Principal Risks of the Portfolio

An investment in the portfolio is not a bank deposit, and it is not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. It is possible to lose money by investing in this portfolio. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. Some major risks associated with investing in equities, fixed income and other assets include:

- **Allocation Risk:** The portfolio's ability to achieve its investment objectives depends in part on the managers' skill in determining the portfolios' sector allocations and in selecting and weighting the underlying investments. The managers' evaluations and assumptions regarding asset classes and underlying investments may differ from actual market conditions.
- **Market Risk:** The value of the portfolio will go up and down based on the performance of the underlying investments in which it invests. The value of the underlying investments will, in turn, fluctuate based on the performance of the securities owned and other factors generally affecting the securities market.
- **Interest Rate Risk:** Generally, when interest rates rise, the value of an underlying investment's fixed income securities will decline. The opposite is true when interest rates decline.
- **Credit Risk:** The value of an underlying investment's fixed income securities will be adversely affected by any erosion in the ability of issuers of these securities to make timely interest and principal payments.
- **Foreign Risk:** Some of the underlying investments are in foreign securities, which are generally riskier than U.S. securities. As a result, the portfolio is subject to foreign risk, meaning that political events (such as civil unrest, national elections, and imposition of exchange controls), social and economic events (such as labor strikes and rising inflation), and natural disasters occurring in a country where the portfolio invests could cause the portfolio's investments in that country to experience losses.
- **Principal Loss:** Employers own a percentage of the CERBT Strategy 1 portfolio (expressed as "units"). At any given time, the value of an employer's units may be worth less than the price paid for them.

## CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocation	Strategy 1*	Strategy 2	Strategy 3
Global Equity	66%	50%	32%
U.S Fixed Income	18%	24%	42%
TIPS	5%	15%	15%
REITs	8%	8%	8%
Commodities	3%	3%	3%

\* CalPERS will be transitioning toward these asset class target allocations until approximately January 2012. For current information, see the "Composition" section of this document.

